

MCI believes the record does not require or support any significant increase in rates for residential subscriber, citing the Hatfield Model cost study as evidence that local loop and local exchange costs are covered. AT&T contends (Citing Ex. 485C and Mr. Mercer's rebuttal and supplemental exhibits, Ex. 761T through 767) that the record demonstrates that revenues attributable to local exchange service, including subscriber line and CCLC, cover their TSLRIC. AT&T urges that USWC therefore faces no revenue shortfall, and any adjustments to its local exchange service rates should be uniform.

All parties either support rolling EAS additives into the rate or make no comment.

It is clear from the record on cost study results that residential local exchange service already covers its incremental cost. There is no subsidy of this service by other services. The need to ensure that each service at least covers its own TSLRIC therefore provides no basis to increase residential rates. However, as noted above in our discussion of cost studies, it is not enough to determine that a rate exceeds TSLRIC. Residential customers share with other customers the responsibility for recovery of shared and common costs.

The appropriate level of contribution is a matter of judgment about how to weigh the public interest, equity among customer classes and groups, the public policy encouraging universal access at affordable rates, and the need to avoid sudden shifts in rates whenever possible. In this proceeding, an important factor is that no overall increase in rates is being ordered.

Having considered all of these factors, we find that the current average statewide single flat residential rate is the appropriate level for residential service in this proceeding. Residential service covers its own costs and provides a reasonable contribution to the overhead of the Company. That contribution is not so large as to justify a rate decrease. We also agree that it is appropriate to eliminate EAS additives and fold them into the average rate. The EAS charges have been established principally on the basis of lost toll revenue rather than cost. It is important to consider costs when setting rates and to use valid reasons for departing from cost.

We decline to reduce the residential class average rate. The restructuring we accomplish in this Order will allocate reductions to other classes and services based on our view of the long term public interest. We expect that it will reduce some of the pressures for future rate reductions for other classes or services, and thus benefit the residential class with more stable rates. Reductions in toll and access service will also benefit customers of those services in the residential class.

While there will be no change in the average rate for flat-rated residential local exchange service, the move to a statewide rate by eliminating the current rate group structure will result in rate increases for some customers. To mitigate against the effect of this increase, the Commission believes that the rate increase should be phased in over two years. Rates for customers whose current rate is more than a dollar below the statewide average rate should

initially move halfway to the new rate, and the remaining increase should be implemented in one year. Rates for all customers above the statewide average rate should immediately move to the new rate.

2. Measured Service

USWC proposes to eliminate the existing variable cost-per-minute structure and replacing it with a 3¢ charge for each minute. Usage packages of three and six hours would be increased by 30¢ and 85¢, respectively, per month. The Company proposes converting the remaining customers who use a frozen service called basic measured service. The measured service rate would go to \$9.25 initially and to \$13.75 over four years. According to USWC, this would simplify the cost structure and bring the rates up to cover costs.

The Commission Staff agrees that the Company's cost studies show current usage rates to be high in relation to their costs. While the Company's proposal to charge a uniform 3¢ a minute simplifies the current structure, it also increases the already high usage charges by over 50% for a four-minute call. Staff recommends that the service be restructured to better reflect the service costs for the loop and usage. Staff recommends that the rate be reduced to 1.5¢ per minute for the first minute, and 1¢ for additional minutes. Staff recommends that the measured monthly recurring line rate be increased from the current \$4.83 to \$7.00. The net revenue impact of these two recommendations is \$47,669. Finally, Commission Staff recommends that the existing measured service packages be grandfathered to avoid forcing 20,000 existing customers to migrate to higher priced alternatives. (Ex. 602-T, pp. 18-19; TR 3407-08.)

Public Counsel/AARP agree that measured service usage rates should reflect cost, proposing that the charge for the initial minute be 2.5¢, with subsequent minutes at 1¢, and with a 40 percent discount for off-peak usage. The monthly recurring rate would equal 70% of the single-line, flat, monthly residential service rate.

The Commission accepts the Public Counsel/AARP proposal. It most closely reflects the costs of the service and establishes an appropriate relationship between flat-rated and measured service. Existing budget service customers shall not be grandfathered, as Commission Staff proposes. The Commission shares Public Counsel/AARP concerns that the measured service rates cover incremental costs, and yet provide a viable option to persons who do not require flat rated service. Rate increases that result should be phased in as provided for above for flat-rated service, i.e., customers whose current rate is more than a dollar below the new rate should pay half the increase now and the remainder after one year.

B. Business

At present, the Company's rates distinguish between "simple" and "complex" business services, and vary by rate group, according to the size of the exchange. USWC proposes to restructure these relationships, eliminating the distinction between simple and complex lines;

eliminating rate groups for a statewide rate, and in the second year of rates instituting a "Zone" structure in which a higher rate would apply to service in exchanges that the Company considers "rural." In addition to this restructure, it proposes several additional changes in charges for business services.

1. Simple/Complex Service

In present rates, simple service consists of four or fewer lines; complex services consists of five or more lines. Each line in Complex service is priced higher than each line in simple service. Exchanges are divided into four rate groups, with charges higher for service in exchanges having more customers.

USWC proposes to eliminate the distinction between simple and complex services. It would also eliminate rate groups, with flat-rate single party business lines priced at \$29 statewide in the first year, up for most customers from the current statewide average of \$25.85. USWC would discount additional lines by five percent. It argues that the proposed changes in rate structure are required to bring prices more in line with costs.

Commission Staff proposes that the Commission implement the restructure approved in Docket No. UT-930957. This would result in a single statewide rate for simple and complex lines, hotel, PAL,⁵² and semipublic of \$25.85. The Centrex NAR⁵³ and the DSS⁵⁴ rates would be \$18.65.

Public Counsel do not oppose eliminating the simple/complex business line differential. TRACER supports a single statewide rate, with NAR and DSS trunk prices aligned with that rate. TRACER contends that USWC failed to justify a higher first-line charge.

DIS supports a statewide business line rate and agrees that current rates exceed costs. DIS agrees that the simple/complex distinction is a disincentive to expansion and proposes 1) pricing all business lines at one statewide rate, with the level dependent on the revenue requirement that the Commission finds; 2) aligning the NAR and DSS trunks with the statewide rate; and 3) rejecting zone pricing.

The Commission accepts the Company's proposal to eliminate the pricing distinction between simple and complex service. It is clear from the evidence that the costs of additional lines do not increase, so the simple/complex distinction is not cost-based. It is a

⁵² PAL stands for Public Access Line, a service provided to payphones.

⁵³ NAR stands for the Network Access Register, which provides access to the network and allows customers to aggregate multiple stations onto a single access port.

⁵⁴ DSS stands for Digital Switched Services and provides PBX access to T-1 facilities.

disincentive to acquire additional lines and thus can impede business communication. This is most burdensome on small business, for which the additional lines may constitute a particularly significant proportion of expenses. Hotel and toll trunks and semipublic lines should be priced at the same rate as business lines.

The Commission rejects the discount for additional business lines. The revenue requirement that we find allows a rate that is lower than any party proposed for business service and minimizes the effect upon business. A demonstration in a future case of cost differentials for additional lines may persuade us that a discount is appropriate.

The Commission will set the business exchange rate at \$25 per month. This rate provides both a reasonable contribution to the shared and common costs of the firm and a substantial rate reduction to business exchange customers. While most customers will experience a rate decrease as a result, the elimination of rate groups and the simple/complex distinction will cause rates for some customers to increase. To mitigate the short-term impact on these customers, the Commission will order a phase-in of the increase for all customers whose increase would be more than one dollar per month. Those customers should pay half the increase now and the remainder after one year.

2. Private Branch Exchange (PBX), Network Access Register (NAR), and Digital Switched Service (DSS)

USWC urges that establishing new rates for PBX, NAR and DSS is contingent upon an imputation test that includes rates established for local interconnection. Until then, the Company proposes to leave PBX trunk rates at the level of the current complex line rate. Although an interconnection filing is expected in July, 1996, no one knows when that case will be finally resolved. The Commission therefore sees no reason to delay adjusting PBX, NAR, and DSS rates consistent with other rate adjustments in this case. USWC can propose new rates for PBX trunks if it is appropriate, following resolution of the interconnection case and the filing of the appropriate imputation tests.

USWC contends that PBX trunks have unique cost characteristics. It argues that usage, and therefore usage costs, are generally higher for PBX lines than other business lines. The Company's evidence, however, shows that PBX trunk loop costs are generally lower than other business lines because the loops are typically shorter. (Ex. 505.)

Commission Staff argues that Company cost studies show a minimal difference in non-traffic sensitive costs between PBX trunks and simple business lines, and that usage cost differences do not appear to justify a separate PBX trunk service. Staff does not oppose a separate usage increment for PBX. Public Counsel proposed a separate \$11 usage increment for PBX trunks to recognize the usage difference.

TRACER cites Mr. Farrow's exhibit (Ex. 341-C) to show that the \$1.06 difference in usage costs (ASIC) is partly offset by differences in loop costs, lowering the net ASIC costs between a business line and a PBX trunk to \$.65. TRACER argues that the only instance where a significant cost difference arises is between a business line and a PBX trunk that has DID, direct inward dialing. In those cases, the PBX customer pays an additional charge for the cost of DID terminations which more than makes up for the cost difference. DIS and TRACER oppose Staff's suggestion that a separate usage increment for PBX trunk customers would be permissible to recognize usage differences because there are no significant differences in costs between business and PBX trunks.

The Commission agrees. It finds that costs and usage of the services are similar, though not identical. Based on the evidence in this case, there is no justification for pricing PBX trunks differently from a business line. The rate for a PBX trunk shall be set at the same level as the statewide rate for a single business line, \$25.00 per month. NAR and DSS rates shall be established by aligning the rates with the single business rate, reduced by the Network Access Channel (NAC) or NAC equivalent.

TRACER and DIS have shown and the Commission finds that NARs and DSS services require separate purchase of the equivalents of the NAC and the switch interface non-traffic sensitive central office equipment (NTS-COE). If the NAR and DSS prices were set at the business line price, the Centrex and DSS customer would be charged twice for NACs and connections to the USWC switch (780-T, 9). Staff, TRACER and DIS recommend that the NAR and DSS be aligned with the new business rate but adjusted so as to avoid double charging customers for the NAC.

The Commission accepts the Staff, Tracer, and DIS position for the reasons stated and sets the rate for NAR and DSS trunks at \$14.00, by subtracting the NAC rate established in this order from the newly-established statewide business rate.

3. Direct Inward Dialing (DID)

USWC's proposal would increase DID trunk termination recurring rates from \$33 to \$40 per month and increase non-recurring charges by \$10, based on USWC's asserted need to increase revenues.

Commission Staff states that these proposed increases are not cost justified. DOD/FEA argues that the rates are anticompetitive because DID rates are paid only by PBX users -- DID is provided as part of the feature package of Centrex Plus service. The effect is to broaden by \$7 per trunk per month the price advantage of USWC's service relative to competing PBXs.

DIS and TRACER recommend that DID trunk terminations be reduced because of the service's importance for E-911 (allowing call back) and because the price is currently many times the service's TSLRIC. DIS and TRACER recommend the lowest practical price. In lieu of such a rate, DIS and TRACER endorse the \$16.50 rate for one-way DID that is in place in Oregon. Public Counsel/AARP contend that USWC failed to demonstrate that this rate increase would affect similar-sized PBX and Centrex customers in the same way.

The Commission rejects the proposed increase. The Commission finds that there is no cost differential sufficient to support rate increases. There is no revenue deficiency to be met. The Commission has above ordered that PBX line rates be brought into alignment with business rates and it reduced the average business rate. Holding the existing rate provides for sufficient contribution to shared and common costs and will avoid enhancing the Centrex price advantage.

4. Hunting

Hunting is a feature offered by USWC to customers using two or more lines. If the number dialed is busy or fails to answer, hunting automatically directs the call to the second line, or beyond if that line is busy. USWC proposes to increase the recurring rates for Hunting from \$2 to \$4 per month, based on its perceived need to increase USWC revenues. The Company proposes to eliminate the charge for the last line of a Series Completion Service hunt group since the last line does not hunt for another line.

Commission Staff opposes the proposed increase because it is not cost justified, and does not oppose eliminating the charge for hunting the last line. DOD/FEA points out that line hunting is included in the Centrex Plus feature package and that multiline hunting is a virtual prerequisite for the effective use of a PBX. They contend that the Company's sole motivation for this proposal is to improve the competitive position of USWC's Centrex Plus offering. DIS, TRACER and Public Counsel/AARP urge rejection for the same reasons.

The Commission finds that the USWC charge for this service is an example of monopoly pricing. Not only does it increase the competitive advantage of the Company's Centrex services, and not only is it priced at many hundreds of times its cost, but it appears to impose additional costs upon USWC and the general ratepayer body. First, because hunting is an important convenience -- nearly a necessity -- it adds to the effective cost and to the current inverted rate structure for additional lines. From that standpoint the charge for hunting masks the real charge of such lines and by increasing that charge operates to restrict sales of other lines that could also bring contribution to the system. Second, to the extent that the service is rejected because of its rate, it impedes business and personal efficiencies: outside callers are inconvenienced by having to call back or try another number. Third, if hunting is not purchased, the multiline customer may miss calls from persons who choose not to call back or dial another number.

For the above reasons, the Commission directs that the hunting charge be reduced

to 5¢, a figure appearing to be several times the cost of the service. This reduction, along with the reduction in average business rates, will operate to the benefit of small business customers. We expect that the reduction will stimulate sales of additional lines, adding contribution, although we do not reflect any additional lines in revenue calculations. We expect that inconvenience and missed calls will be reduced. All told, we believe that this will be a true win-win situation in which the customer benefits, the Company benefits, and the public benefits.

C. Zone Pricing of Local Exchange Service

The Company proposes to deaverage rates for local exchange services as a response to competition and to reflect its perception that costs of providing service in urban areas are lower. WITA endorses zone pricing. Part of the USWC territory, including all exchanges with EAS to metropolitan exchanges, would be declared urban. Remaining parts of its territory (including Olympia) would be deemed rural. Residential rates would be \$21.35 in the urban zone in the fourth year of the Company's phase-in proposal, and "rural" rates would be 20% or \$4.50 higher.

Commission Staff recommends rejecting zones because current average residential rates exceed the statewide average cost of residential service; business line rates far exceed the cost of service; and because it believes that competitive pressures have been overstated. In addition, the zones have anomalies in which some areas in the rural zone are more urban than some areas in the urban zone.

TRACER and Public Counsel/AARP argue that zone pricing has not been justified. Public Counsel/AARP opposes "loading additional charges on customers with even fewer options than those in urban areas." DOD/FEA support rate adjustments to reflect major differences in costs and believe the existing "value of service" rate group structure is out of step with the times.

It is clear from the record that the cost of providing service is not the same for every customer. The Hatfield model results adopted by the Commission show that the costs increase as the population density decreases. In other words, it does cost more to serve rural areas. Ex. 767. That factual conclusion does not, by itself, support a policy decision to adopt zone prices. The Commission finds that the existence of cost distinctions and the magnitude of distinctions depend on the particular service. Many factors led the Commission to reject zone pricing in favor of a single statewide rate. There is no demonstration that USWC's proposed zones correctly place exchanges in the proper zones. Indeed, USWC has included some very rural exchanges in its so-called "urban" zone. Even if USWC had proposed a cost-based division of exchanges, the two zones would have each contained exchanges that had different customer densities and therefore different costs.

The same logic that would support the zone concept would then call for dividing each zone into sub-zones, with the only logical stopping point being a unique rate for each customer, reflecting that customer's costs. That outcome is not one observed in competitive

markets or in the other industries subject to our regulation. Absent some compelling reason, such a radical change in pricing structure must be rejected. A statewide average rate promotes affordable local telephone service, minimizes rate shock, and provides USWC the ability to provide service at rates that exceed the average cost of providing service.⁵⁵ The Commission is willing to reconsider this ruling if competition takes hold and if doing so is permissible.

D. Business - Residential Relationships

USWC contends that its proposal for the first year retains a 2:1 ratio of business rates to residential rates but suggests that in the future rates should be consolidated.

Staff supports the near term business to residential ratio of 2.5:1 implicit in Staff's recommendations. Public Counsel/AARP support the existing ratio. DOD/FEA challenges Public Counsel/AARP's argument that the ratio between business and residential rates remain the same. DOD/FEA contends that business line and PBX trunk rates should be lower than residence line rates. TRACER says the Commission should give no weight to ratios and base their decisions instead on underlying costs and public policy considerations.

The Commission has no target ratio in mind when it establishes rates. It finds that each service is covering costs, although the business rates are higher above incremental costs. A simple ratio does not reflect other relevant factors in pricing, such as tax advantages, directory advertising advantages, repair advantages, etc., that the Commission may consider in pricing. With those reservations in mind, we note that the ratio of existing service is approximately 3:1 and the ratio we propose is approximately 2.5:1. We note that the existing ratio does not reflect the charge for hunting, which many customers may feel to be essential, and which we order substantially reduced. Nor does the ratio reflect charges for message toll service, which is also reduced.

E. Revenue Impact

The restructuring of residential flat-rated service to eliminate rate groups and EAS adders, and to establish a single statewide rate at the current average, has no revenue effect. The revenue effect of approved changes to the measured rate structure is \$385,000. The revenue effect of establishing a business rate of \$25 with no simple/complex distinction and no rate groups is a revenue reduction of approximately \$31,800,000 including the effects of stimulation.

⁵⁵ While we base our rejection of zone pricing on the policy considerations outlined above, it is worth noting that the federal Telecom Act appears to prohibit rate differentials that impose substantially higher rates on rural than urban areas.

VI. Toll and Access**A. Toll Services**

USWC's message toll rate proposal would compress mileage bands and decrease rates by \$18.6 million in the first phase and decreases mileage band rates by another \$17.4 million in the second phase. There would be no differential between the initial and subsequent minutes. Optional calling plans would be restructured and rates reduced, 800 Service Line hourly rates would be decreased, and TollPac discounts would be reduced from 30 percent to 15 percent by the second phase. The total reduction of these proposals is \$22.8 million in Phase 1 and \$19.8 million in Phase 2. USWC contends this is a competitive response similar to one that would be made by any party faced with a "dwindling market share." USWC contends that its toll call volumes have been shrinking at 3-5% per year while competitors' volumes are growing at 5-16% (Ex.55), and it proposes the rate reductions to allow it to maintain market share.

MCI opposes the new toll plans unless USWC satisfies the Commission's imputation standard. Specifically, it urges that USWC toll rates should not be reduced prior to lowering access charges to its competitors. AT&T argues that with USWC access rates many times the Company's direct cost calculations, the Commission should reduce the rates for access before approving any rate reduction for intraLATA toll. DOD/FEA believe that there are compelling reasons for toll reductions and observes that even if the proposal is approved, USWC intrastate toll will still be higher than interstate toll.

1. Message Toll Service (MTS)

USWC proposes to decrease toll rates by \$18.6 million in the first phase, and decreases mileage band rates by another \$17.4 million in the second phase. It proposes to eliminate the differential between the initial and subsequent minutes.

Staff supports the proposal to restructure and reduce rates for basic message toll service. It observes that costs are becoming less distance-sensitive, and a number of other toll service providers have adopted equalized minute rate structures. With the exception of some computational flaws and reservations about the Company's assumed price elasticity value, the Staff's witness, Mr. Selwyn, found the Company's calculations and methodology acceptable.

Staff contends that USWC's elasticity value is a one-year estimate and does not reflect the full anticipated demand response associated with the toll rate reduction. Using Staff's long-term estimate provides an additional \$8.3 million in net annual revenues to the Company. (Ex. 380-T, p. 71; Ex. 382, p.9).

Public Counsel/AARP support only modest toll reductions, and then only if a revenue surplus between \$50 million and a \$100 million is found. They contend that the Company has failed to demonstrate a genuine competitive threat to toll. Public Counsel/AARP

opposes having the same charge for the initial minute as for subsequent minutes because it exacerbates the existing disparity where residential MTS carries a higher margin than business MTS.

AT&T argues that the USWC proposal fails to afford true rate relief to consumers and that it is anticompetitive because it compels residential ratepayers to finance a toll reduction that increases the price squeeze on USWC's competitors, while ensuring that the Company maintains its revenue stream. Toll rates should be reduced, argues AT&T, but only as a byproduct of reductions in switched access rates that allow competitive forces to work.

The Commission agrees that the Company's concerns regarding toll competitors have some merit. In this Order we authorize USWC greater flexibility to adjust its prices to meet competition in a nondiscriminatory manner through banded rates. As markets become competitive, it is essential that the Company have the flexibility to transition into the role of a market competitor. It has had little practice as a competitor and banded rates are one mechanism permitted under regulation that will allow flexibility to meet competition within an identified range. In calculating its rates to meet its revenue requirement, the Company shall use and be prepared to demonstrate long run stimulation effects of lower rates.

The Company's proposal to reduce toll rates is reasonable and should be approved. We find Staff's estimate of the revenue effect to be the most accurate and we adopt it. We approve eliminating the premium for the first minute of toll, as it will result in rates that reflect the rate structures of toll competitors and that are easier to quote and easier to understand. We reject AT&T's request that toll reductions be contingent upon one-plus dialing for competitors' intraLATA toll; A rulemaking on one-plus dialing will soon move forward and we see no reason to deprive the Company of needed competitive ability and operating flexibility in the interim. The proposed phase-in of toll decreases was related to phased increases in local exchange rates. Because we have rejected those increases, the toll decrease should be implemented in one step.

2. Optional Calling Plans (OCP)

USWC's proposal for optional calling plans is to remove nonrecurring charges (NRCs) for the Plans, merge business plans into one and lower its rate; lower the rate for the volume plan; and add a 5% discount to business hour discount plan. USWC's revenue impact prediction differs from its calculation of revenue decreases from lower rates. USWC contends that the NRCs should not be eliminated.

Commission Staff says the Company's proposals for optional calling plans suffer from the same failure to use long-term estimates of elasticity as the Company's MTS proposal. Public Counsel/AARP and Staff believe that the Company should recover non-recurring costs, even if minimal, from the users of the OCP offerings, and Public Counsel/AARP agree that the Company's stimulation projections are inaccurate. WITA supports the development of a variety of toll discount plans and believes they should be available in independent LEC territory on the same terms and conditions as in USWC territory.

The Commission finds that the Company's proposed changes are supported by the record and accepts them, with slight modifications. First, the Company shall consider long-term stimulation effects in calculating revenue. To the extent that short-term effects are used and such rates continue in effect, the Company's income would be understated. Second, we accept the Commission Staff and Public Counsel/AARP proposal to require some non-recurring charge because of the costs of administration. Adding a charge will discourage customers from hopping back and forth on and off the plan and will recover the administrative costs from the cost-causers. We reject AT&T's arguments that the proposal is anticompetitive, because no costs are being spread to captive customers, because access charges are also being reduced, and because a number of competitors are becoming active in the toll market.

3. Toll Pac

USWC proposes reducing the Toll Pac discount for MTS service from the current 30 percent to a proposed 15 percent, and freezing the service, contending that it no longer achieves its purpose and that it is out of line with other services USWC offers in other states.

Public Counsel/AARP claims Toll Pac relieves some community pressure for extended area service and provides one of the few residential toll discounts available. WITA supports the Public Counsel/AARP analysis.

The result of this order will be a significant toll decrease, reducing the need for a Toll Pac discount package. EAS has been granted to many areas, also reducing need. The discount is not cost-related. For these reasons, the Commission accepts the Company proposal.

4. Revenue Impact

Staff's corrections of the Company's calculations and use of long run elasticity demand result in the total revenue impact of the toll reductions of \$32,268,662 (Ex. 382, p. 10).

B. Switched Access

USWC provides switched access service to interexchange carriers (IXCs), also known as long distance companies, who use USWC's network to connect their customers' calls. Without that access, each carrier would have to build its own local exchange lines to provide long distance service to its customers.

It is not a matter of dispute that access charges greatly exceed the incremental cost of access.⁵⁶ According to the record, USWC's current switched access rates greatly exceed its

⁵⁶ The incremental cost of access does not include any costs of the local loop or non traffic-sensitive central office equipment. Those facilities are shared by local and toll services and are

own direct cost calculations (Ex. 485C; TR 3209-10). Access charges are significant beyond their direct contribution to USWC revenues because they are an element in other companies' charges.

Proposals made by parties range from no reduction in access charges (Public Counsel/AARP) to a revenue reduction of almost \$47 million (AT&T).⁵⁷ USWC proposed a reduction of about \$15.3 million. Commission Staff presented evidence that USWC's proposed rates would reduce revenues by \$12 million, rather than \$15.3 million. Staff supported a set of access charge reductions that would produce a \$12.0 million reduction in revenues.

The Commission has concluded that a substantial reduction in access charges is reasonable. The appropriate reduction should exceed the amounts proposed by Staff and USWC. Because access charges currently are above cost, the magnitude of reductions are primarily a function of the overall revenue requirement in this proceeding and the other rate design changes that must be made. We believe it is appropriate to require an overall reduction of approximately \$29 million, consisting of \$22 million in access charges paid by IXCs and \$7 million in access charges paid by independent local exchange companies, with an additional \$5.3 million reduction phased in over the next two years.⁵⁸ The Commission also believes that extensive changes in the structure of access charges are in order. These changes include adoption of the local transport restructure, setting transport rates equal to comparable dedicated access rates, rejecting the proposed residual interconnection charge (RIC), and eliminating the carrier common line charge (CCLC).

properly included as a shared cost rather than an incremental cost of either service. If loop costs were included in the incremental cost of switched access (i.e., if IXCs were required to pay the full cost of the facilities necessary to reach their customers), switched access rates would fall far short of covering cost.

⁵⁷ DOD/FEA contend that the 1996 Telecom Act is relevant. They argue that, because the Telecom Act forbids setting interconnection elements with reference to a rate of return proceeding, any access rates approved in this proceeding are unlawful, null, void, and violate several provisions of Act. The Commission disagrees. We recognize that this proceeding is transitional and that the rates we set may be interim. The rates are a part of the Company's overall revenue requirement established in a pending proceeding. The Telecom Act has not invalidated any existing rates. The Commission is not beginning a new proceeding aimed at access rates. It is not delaying or impeding any federally prescribed process for access rates. The Commission does not challenge the primacy of the Telecom Act and intends to operate in compliance with it. The rates authorized herein will be in effect only until superseded by rates established pursuant to future lawful process. We believe that the actions taken herein are consistent with the Telecom Act. See, Telecom Act, Sec. 251(b)(3).

⁵⁸ The access revenue decreases should offset and coincide with the revenue increases resulting from phased in increases in basic exchange service and terminal loops authorized elsewhere in this order.

Several factors lead to the decision to make such a substantial reduction in access charges. First, the markup over incremental cost is substantially greater for switched access than for other major services that use the local loop, namely toll and local exchange service. Second, access service is purchased by USWC's competitors in the toll market. The Staff and USWC proposals would have reduced USWC's retail toll rates by more, on an average cents-per-minute basis, than its wholesale access rates, and therefore deserve more scrutiny. Third, the reduction in access rates can be expected to have substantial economic benefit for residential and business customers of this state.⁵⁹ Toll calls are a substantial portion of the total telephone bill of many customers, and this reduction will make their overall telephone service more affordable. The resulting rates will still make a contribution to all shared costs, including costs of the local loop.

1. Local Transport Restructure (LTR)

In Docket No. UT-941464, the Commission accepted the general structure of the company's proposed LTR, but rejected rates and included guidelines for revisiting the subject in this case. USWC proposes to reduce local transport rates by \$15 million and to impose zone differentials. No party has opposed LTR. Areas of disagreement instead center on the specific rates and rate elements, particularly the Carrier Common Line Charge and the Residual Interconnection Charge.

The Commission accepts the basic restructure developed in UT-941464. Specifically, USWC should file rates for dedicated trunked transport based on the rates for comparable service in its dedicated access tariffs, for tandem switched transport as it proposed, and for local switching. The LTR proposal also included continuation of the CCLC and creation of a new RIC. Those rate elements should not be included in the access service rate structure, as discussed below. The overall level of revenues from access services should initially be approximately \$47.9 million, including revenue from IXC's and independent LEC's.

2. Carrier Common Line Charge (CCLC)

The CCLC was created 10 years ago as a mechanism designed to avoid the "rapid and total deloading of NTS (non-traffic sensitive) costs onto the entire class of end users in the state." (U-85-23 et al., 18th Supp. Order, p. 8). There has not been, until this case, a comprehensive review of USWC rates and revenue requirement. This case provides the

⁵⁹ Some parties have expressed concern that the interexchange carriers will not pass through the access charge reductions by lowering their in-state long distance rates. This is a legitimate concern, though we believe competition among carriers will cause the reduction to be passed through. With a reduction of this magnitude, the effect on retail rates should be easily measured. Parties represented on the record that pass-through could be expected, and the Commission will consider the speed and the extent of pass through any future proceedings in which further access charge reductions are proposed, including the two phased-in reductions ordered here.

opportunity to examine and question the value of rate elements, particularly those elements that work against an efficient and straightforward rate design. The process of determining the CCLC, by USWC admission, involves "an elaborate and involved set of allocations" (Ms. Wilcox, TR 3232, line 24).

AT&T argued that the CCLC is intended to contribute to the costs of the local loop, but the record establishes that the revenues attributed to local service cover the incremental cost of the services. USWC countered that the Commission's previous orders have recognized that carriers receive benefit from using USWC's network and should contribute to the common overheads incurred in maintaining that network. Staff and Public Counsel/AARP also support the continuance of the CCLC for the same reasons.

The Commission's accepts AT&T's argument that the CCLC is best eliminated. The CCLC has outlived its function and it is time to retire it as a specific rate element of switched access. By eliminating the CCLC, the Commission is not excusing toll carriers from responsibility for supporting the shared and common costs of the network it uses to reach its customers. On the contrary, the revenues assigned to switched transport and switching still include a significant contribution to shared and common costs. However, there is no longer a reason to treat one shared cost -- the local loop and NTS-COE -- differently from the many other shared and common costs of the firm. It is reasonable and appropriate for access charges to contribute to the recovery of shared costs -- including the local loop -- but the assignment of costs using the CCLC is no longer warranted.

To allow the CCLC to continue to exist is to imply, inaccurately, that local exchange services require a "subsidy" from toll. Eliminating the CCLC does not put USWC at risk in terms of recovering its costs; the question is not how much revenue to collect from switched access service but rather what rate elements should be used to collect that revenue. Eliminating the CCLC takes an important step away from the historical method of assigning costs, and the result will be a more streamlined rate structure where rate elements have a direct bearing on the service provided.

3. Residual Interconnection Charge (RIC)

USWC proposes a Residual Interconnection Charge, or RIC, to be applied to switched access. USWC contends that it is a balancing tool with which it proposes to generate contribution. USWC argues that it is needed for local exchange carriers to remain viable. AT&T argues that there is no justification for introducing another rate element on a service that's already more than covering its costs, and urges that it is one element of a transparent attempt to increase rates for switching, which only USWC can provide, while reducing it for transport, which is becoming competitive. MCI and Sprint oppose the RIC; Commission Staff accepts the concept but suggests that the charge apply only to traffic transported through USWC local transport facilities⁶⁰ and Public Counsel expresses concern about some details, but does not oppose it.

⁶⁰ The proposal does not appear sound, as it would be burdensome to administer and it would handicap the Company's ability to compete in transport.

Having already made the decision to eliminate the CCLC, an old method of recovering shared costs, the decision to avoid establishing a new one is simple. The Residual Interconnection Charge is not related to any one service but is rather a proposed balancing tool for a Local Transport Restructure that was originally proposed outside of a rate case. MCI contends that a RIC is unnecessary in a rate case since there is no obvious need to keep LTR revenue neutral. The Commission agrees. Transport rates and switching rates will be set to produce the level of revenues that the Commission determines to be reasonable and sufficient. The practical result of the RIC would be to increase the switching rate. It is much more straightforward simply to set the switching rate at the appropriate level.

4. Local Switching

USWC proposes to increase its charge for local switching to 0.9¢ per minute in its "urban" zone, up from 0.65¢ per minute proposed in UT-941464, and 1¢ per minute in its "rural" zone. Staff, AT&T, MCI, Sprint, and DOD/FEA all oppose the increase.⁶¹ The real switching rate that USWC proposed also includes the CCLC and the RIC, increasing the rate to over 4¢ per minute.

The Commission concludes that a reasonable switching rate will result from combining the switching charge and the CCLC amounts proposed by Commission Staff. In other words, taking Staff's proposed switching rate as the starting point, the CCLC at its current level should then be rolled into the switching rate and the RIC should be rejected entirely. This produces a rate of slightly over 2¢ per minute, which is reasonable, and revenues of about \$34.5 million. The exact rate and revenue amount, however, should be determined by calculating the difference between the overall revenue requirement in this case and the sum of all other rate changes approved in this order. Further access charge reductions should be made in one year and two years, to coincide in time and amount with the revenue increases that result from the phased-in increases in term loop rates. Each of these reductions will equal about \$2.5 million. Thus, the ultimate level of switching revenues ordered here is about \$29.5 million.

The Commission believes a switching rate of slightly over 2¢ per minute is reasonable. This rate will result in revenues equal to about \$34.5 million, which is the amount that would be produced by the switching charge and CCLC proposed by Staff. In other words, taking Staff's proposed switching rate as the starting point, the CCLC at its current level should then be rolled into the switching rate and the RIC should be rejected entirely. The exact rate and revenue amount, however, should be determined by calculating the difference between the overall revenue requirement in this case and the sum of all other rate changes approved in this order.

⁶¹ The positions of various parties must be considered in the context of their positions on the appropriate levels for the RIC and CCLC. Commission Staff, for instance, proposes a switching charge of 0.65¢ per minute, but it also would levy a RIC of 0.695¢ and a CCLC that averages about 1.8¢ per minute. The total charge, therefore, for traffic switched by USWC would be more than 3¢ per minute.

This significant decrease in access costs can be expected to stimulate demand for access services, and this effect must be anticipated and accounted for in determining the specific switching rate. USWC proposed no elasticity or "stimulation" adjustment, arguing that it could not be sure that interexchange carriers would pass the reduction through in retail rates. USWC apparently does not disagree with the idea that if retail rates are reduced, its access demand and revenues will increase. Its position against an elasticity adjustment would require one to accept the idea that interexchange carriers will pocket the entire reduction in access costs. In fact, while the reduction in retail rates could be greater or less than the access charge reduction, the most reasonable conclusion in a competitive market is that the full reduction will be reflected in retail rates. An appropriate long-run elasticity value should be used, based on the effect of reduced access charges on the retail rate for toll services. (Ex. 380-TC, p. 70). The elasticity adjustment should be calculated on that basis.

5. Transport

In deferring the local transport restructure from the interconnection case to this case, the Commission had hoped for a more thorough discussion from USWC regarding how to align rates among transport services. Instead, USWC acknowledges in its brief that it has proposed the same levels of transport charges that the Commission rejected in the Interconnection order. That order said that the ratio between DS1 and DS3 should be no lower than the ratio of their TSLRICs. USWC contends that their proposed rates is equal to the lowest ratio of USWC's Seattle-area competitors whose rates have ratios below that of their TSLRICs, providing proof that a ratio below TSLRIC but no lower than USWC filed rates will not hurt small interexchange carriers. Ex. 556-C.

The Company did not attempt to verify whether small interexchange carriers were, in fact, purchasing service from these competitive access providers. Thus, the Commission cannot find whether such rates are proof that a similar ratio for USWC rates will not cause harm or be anticompetitive. On the contrary, there is extensive evidence in this record and noted in the Interconnection order demonstrating the discriminatory potential of transport rates that do not reflect a proper ratio between DS0, DS1 and DS3. See, the Interconnection order at page 81.

Commission Staff contends that the Company needs to comply with the interconnection order regarding pricing of transport by pricing transport services so that they maintain a ratio between their rates that is at least equivalent to the ratio of their respective TSLRICs. In the absence of any further evidence or argument elucidating this matter, the Commission reaffirms its prior decision.

AT&T cites revised USWC data on historical demand that shows USWC revenues for transport would increase 30% over what the Company originally estimated (compare Ex. 553, p. 3 with Ex. 563, p. 3). AT&T argues that the rates styled "illustrative" by USWC in Ex. 565 should be adopted.

Sprint expressed concern that customers of tandem switching should not be required to cover overheads above that which is paid by customers using direct trunked transport. The Commission agrees that local transport restructure should treat equally efficient competitors neutrally, regardless of their size.

Elsewhere in this Order the Commission directs USWC to set its private line rates so that DS-1 and DS-3 mileage rates reflect the ratio of their underlying incremental costs. The Commission also is rejecting USWC's proposal to decrease voice-grade private line mileage rates. USWC's proposed rates for tandem switched transport, entrance facilities, and multiplexers appear reasonable and are not opposed by other parties. The Commission believes that, with that restructure, the rates for dedicated access service provide a reasonable basis for dedicated trunked transport access service.⁶²

6. Equal Access Charge

USWC proposes to eliminate its equal access charge and to recover the revenue in the RIC. AT&T argues that the equal access charge is not cost-based, has been eliminated from USWC's interstate tariff, and would be recovered from access charges in about one week of growth in revenues at the annual average rate of 10%. The Commission so finds, and concludes that there is no longer a need for an equal access charge.

⁶² Commission determined in the interconnection case that rates for dedicated access service and the dedicated transport component of switched access service did not have to be priced equally. Fourth Supplemental Order, UT-941464. Given the similarity in these services, however, it is desirable to price them on the same basis if conditions permit, and in this instance they do.

7. Zones

The Company proposes to establish zone pricing for the Carrier Common Line Charge, the RIC, and local switching in addition to local exchange service. It argues that the proposal reflects costs, but that cost differences are not essential to pricing differences, and competitive conditions have been recognized historically as appropriate factors in regulatory pricing.

Commission Staff and MCI contend that USWC did not show a cost difference between its urban and rural zones, but merely made a general assertion that costs of serving average customers are lower in urban areas. Staff argued that with switches being priced on a linear basis, there is no reason to believe that a cost basis exists to deaverage switching rates or the contribution elements of access. USWC did not attempt to make an argument that zone pricing was cost based but rather in response to competition. To sustain such an argument, USWC would need to show that its competitors can underprice its switching service in particular areas, and it has provided no evidence on that point.

The Commission rejects zone pricing for switched access charges, for the reasons stated in rejecting other applications of the Company's zone proposal. Neither cost differences nor competition differences justify this rate structure.

8. Revenue Impact

The rate structure approved by the Commission will result in an initial reduction of \$22.0 million in switched access charges paid by IXC's and a reduction of \$7.3 million in switched access charges paid by independent LEC's. The total ultimate revenue effect, including the reductions that will coincide with terminal loops phase-in, is a reduction of about \$39.3 million.

VII. Dedicated Services

A & B. Private Line/Terminal Loops, Analog/Digital

USWC proposes extensive revisions to its analog and digital private line service rates. The analog network access channel (NAC) rate would increase, channel performance and mileage rates would decrease, terminal loops and remote control office services would be grandfathered and eventually discontinued, non-recurring charges would be increased, and digital private line service would be restructured.

These proposals, along with changes proposed by Staff and TRACER, must be considered in context of USWC's overall dedicated service offering, as well as similar services that are provided under USWC's switched access and basic exchange tariffs. We will discuss each element of these proposed changes separately.

1. Network Access Channel (NAC)

NAC rates are currently at \$9.00 for a two-wire circuit and \$18.00 for a four-wire circuit. USWC proposes increases of \$2 and \$4, respectively. Staff and TRACER had proposed decreases of the same amounts as a way to offset the increase in revenues as term loop service is merged with private line service.

At the rates proposed by Staff and TRACER, the NAC service would be priced below the incremental cost of an unbundled loop, which is about \$8.96 (Ex. 765-T, p. 4). Overall, the level of contribution from analog private line services falls short of that from digital private line services. On this basis, rather than USWC's asserted need for additional revenues, the increases proposed by USWC should be approved.

2. Channel Performance and Mileage Charges

Rates for channel performance features should be reduced as proposed by TRACER. USWC has failed to provide adequate estimates of the cost of channel performance on a least-cost basis, but it appears that these services are priced sufficiently in excess of cost that the price reduction proposed by TRACER for these elements is warranted.

Both TRACER and USWC proposed lower mileage charges. TRACER would reduce mileage charges to match those for E-911 service. That service does not provide an appropriate basis for private line transport rates. USWC proposed a smaller reduction, but the contribution from these mileage rates already is lower than the contribution from DS-1 and DS-3 mileage charges. No change in these mileage charges is warranted.

3. Terminal Loops

The Commission's decision in the Terminal Loops case to bring term loop rates into line with private line rates should be implemented in this case. No party objected to this alignment. This will align rates for similar services and correct the problem that term loop service currently is priced below its cost. Rates for term loops customers will more than double as a result of this change. USWC proposed to phase in the increase. Rates would move immediately about one-third of the way toward private line rates, and the remaining gap would be closed in 1997 and 1998. This phase-in is appropriate to provide a needed transition time for term loops customers.

4. Digital Private Line Service

The Commission accepts USWC's proposal to combine Digicom I and Digicom II into one service. This change will provide a higher level of service for current Digicom I customers and reduce rates for Digicom II customers. NAC and channel performance elements

will be bundled into a single channel termination service. USWC may provide discounts for customers who sign long-term contracts, as is already done for higher-speed digital services.

However, the rate increases that USWC proposed for channel termination at lower speeds are rejected. As Commission Staff points out, the proposed increases were based on USWC's asserted need for an overall revenue increase. The services already are priced above cost and those prices should not be increased. The current Digicom I rates should apply to the new Digital Data Service.

5. Non-recurring Charges

The restructure of private line non-recurring charges should be implemented as proposed by USWC. Some current charges are below cost, and this restructure will eliminate that problem. This restructure is the second step of the revision to non-recurring charges begun last year. Both Commission Staff and TRACER support USWC's proposal.

C. DS-1/DS-3

Many parties argued DS1 and DS3 issues in the Switched Access Transport section, above. As discussed in that section, USWC never revised its DS-1/DS-3 pricing ratio to conform to the Commission's guideline to adopt, at a minimum, a TSLRIC-based ratio. USWC rates should at a minimum reflect this ratio. Currently, the markup over TSLRIC is lower for DS-3 service than for DS-1 service. Staff proposed increasing the DS-3 mileage charges to achieve the proper relationship to DS-1 charges. TRACER would correct the price disparity by lowering the DS-1 charge.

Achieving this relationship requires either an increase in the DS-3 rate, as Staff proposed, or a decrease in the DS-1 rate, or a combination of the two. TRACER makes a persuasive argument, especially in light of the revenue requirement of this case and the overall high levels of contribution from high-capacity private line services, that the better approach is to lower the DS-1 rate. Mileage rates for DS-1 transport should be lowered as proposed by TRACER.

D. Revenue Impact

The revenue effect of these changes depends on the price elasticity for private line services. Commission Staff and TRACER expressed concern that the Company failed to assess repression properly. To estimate repression from the term loops increase, USWC used data from restructuring terminal loops in Oregon, and it argues that this is the only study available in the proceeding. USWC argues that this study measures the long-term impact of the rate increase.⁶³

⁶³ We note that USWC supports a short-run elasticity factor in calculating the stimulation in demand from the reduction in toll rates. The combination of a long-run value for rate increases

DIS and TRACER challenge the repression analysis because it reflects data over several years, different from the price elasticity estimates that the Company uses with other services. Data in the Term Loops case, they contend, indicate that the number of term loops sold in Oregon changed for many reasons, not only price. Finally, they contend that the repression analysis does not recognize offsetting revenues that USWC can expect to receive as term loop customers switch from one USWC service to another. Thus, they argue, the Commission should assume no repression if it must increase net revenues from private line and terminal loop service.

The Commission agrees that USWC's repression estimate for the term loops increase is unreasonably high. The Company's proffered term loops repression value is theoretically and empirically unsound. The Commission notes that, while USWC was using an unreasonably high elasticity value to estimate term loops repression, it assumed no elasticity effect from the rate decreases it proposed for digital private line service. Assuming zero price elasticity is equally unsound. While both assumptions are unsound, each works to USWC's advantage by understating its revenues.

The Commission is concerned that assuming no price elasticity would be both inaccurate and unfair to USWC, since it would produce a higher revenue estimate than it is reasonably likely to obtain. TRACER witness, Dr. Zepp, used an elasticity value of $-.25$ in calculating the revenue effect of his proposed change in DS-1 rates.⁶⁴ That estimate is the most reasonable and accurate available estimate of price elasticity for private line services and should be used for all stimulation and repression estimates relating to the private line rate changes discussed in this section.

and a short-run value for rate decreases is both inconsistent and works to USWC's advantage by understating its revenue levels. A long-run value should be used in both situations, though the particular value may be different for different services.

⁶⁴ Dr. Zepp did not calculate elasticity effects for his proposed changes in analog private line rates. His overall proposal was revenue neutral, and the elasticity effects would have been approximately offsetting.

The revenue effects, with elasticity effects as discussed above, are as follows:

Increase analog private line NAC rates; reduce channel performance rates	\$0.8 million
Align term loops rates with analog private line rates	\$7.5 million
Merge digital data services at Digicom I rates	(\$0.5 million)
Restructure non-recurring charges	\$0.8 million
Reduce DS-1 mileage rates	(\$1.5 million)
Total revenue effect	\$7.2 million

VIII. Other Issues

A. Pay Phones

The Northwest Pay Phone Association (NWPPA) participated in this proceeding, addressing issues related to the Company's provisioning of customers' and its own pay phone services.

NWPPA's principal issue is whether the difference between USWC's retail pay phone rate of 25¢ and the rate it charges independent pay phone providers for an access line creates a price squeeze. USWC has produced updated imputation analysis that it contends will show that USWC's proposed Public Access Line or PAL rate (equal to the proposed business rate) passes the imputation test established by the Commission. USWC says its analysis is conservative because the actual compensation costs by USWC was 7 percent less than that budgeted in the cost study. No party other than the Northwest Payphone Association challenged this imputation test.

The NWPPA argues that USWC has submitted multiple conflicting imputation studies and has tried to change the imputation method approved by the Commission in UT-920174, which was decided on reconsideration last summer and is now on appeal by USWC. NWPPA's cost studies show that the coin phone rate would have to be more than 30¢ to avoid a price squeeze at the proposed PAL rate.⁶⁵ The NWPPA argues that the Commission should set the PAL rate at USWC's TSLRIC. USWC contends that Sec. 276 of the Telecom Act preempts Commission action.

⁶⁵ The main points of contention in the cost studies appear to be (1) call volumes and (2) costs of the new "smart" Millennium sets. USWC uses higher call volumes based on very recent data. NWPPA argues that the recent data are not representative and that USWC has not reflected higher costs that would be incurred at these higher call volumes. The Millennium set costs include capability to handle credit cards, and USWC says the revenue from use of that feature should be deducted from the cost of the set in order to compare local revenues with local costs.

The Commission rejects the NWPPA challenge. The average PAL rate is lower as a result of this order than it was as a result of the earlier imputation docket, which found no price squeeze at the then-current business line rate. Thus, for a price squeeze to exist now, it would have to be the case that USWC's costs have increased. There is no good evidence to support such a finding. USWC is installing more expensive and more sophisticated terminal equipment, but not because "smart sets" are needed to provide local pay phone service. The additional cost of these sets can be justified only because of the toll revenues or savings in toll-related expenses that they will produce and their cost is not shown to be relevant to the imputation test for local pay phone service. We reject USWC's assertion that all pay phone issues are immediately preempted by the Telecom Act and find that we have jurisdiction to make this ruling, at least prior to the FCC's adoption of relevant rules. Telecom Act, Sec. 276(a).

B. Resale

The Commission said in the Interconnection case order⁶⁶ that any general prohibition on resale of services should be eliminated and that eliminating resale restrictions should occur in the general rate case. The federal Telecommunications Act now also prohibits local telephone companies from restricting the resale of their services.

AT&T argues that USWC enjoys cost savings when it sells high volumes of services and that to prohibit resale would stifle competition. It urges that resale prohibitions should be excised from every USWC tariff on file with the Commission. AT&T also argues that the tariffs should provide for specific resale rates below the retail level. The discount should reflect "TSLRIC cost savings as a result of wholesale service provision." AT&T cites Section 252(d)(3) of the federal Telecommunications Act as requiring a wholesale rate no greater than the retail rate minus costs attributable to any marketing, billing, collection, and other costs that would be avoided by the local exchange carrier.

AT&T argues that the appropriate discount is 33%. This figure is based on embedded cost data, because AT&T says it did not have access to incremental cost data for USWC. The Tennessee Commission adopted a 25% discount.

Commission Staff concurs in the need to permit resale of services, with the exceptions that residential service should not be resold to business customers and that local call termination may not be used to deliver toll traffic. It urges the Commission to require resale at wholesale tariffs reflecting the avoided costs of the incumbent's retail operations. Staff does not address the question of what discount, if any, should apply.

USWC notes the federal requirement for resale and argues that the Commission should rebalance rates "so that resale is not a financial disaster for USWC." USWC does not address the question of what discount, if any, should apply.

⁶⁶ UT-941464, Sixth Supplemental Order, p. 19.

The Commission has in this Order granted many of USWC's requests regarding restructure. It believes that properly priced resale will not be financially harmful to USWC, as USWC fears, as it will be priced above cost and therefore result in contribution.

MCI argued that the discount from retail should be sufficient to permit a feasible margin for entrants. The Commission disagrees. Our concerns are that the sale is above the Company's TSLRIC and that it is net of avoided costs. There can be no guarantee that the result is a financially feasible, stand-alone resale opportunity for entrants.

The Commission finds it somewhat troublesome that the issue of resale was not more adequately developed on the record of this proceeding, although it understands the massive effort expended by all parties. It is clear that the record is insufficient to set a standard discount rate. It is also clear that federal law as well as the Commission requires that resale be permitted. The Commission will order the following.

When it refiles tariffs under the terms of this order, the Company must refile all of its now-restricted tariffs without any resale restriction. Doing so will comply with the Commission's order and the federal statute. Concurrently, it shall file a general resale tariff stating that resale shall be otherwise permitted at the tariff rate, less the Company's avoided costs for the service to be resold, upon a service-specific tariff to be filed upon the request of a potential reseller. The resale tariff may provide for reasonable financial security and shall provide that services may not be resold out of class.

While not entirely satisfactory, this approach will allow resale discussions to begin immediately and will permit the filing of specific tariffs for specific services. As time goes by, it may be feasible to designate an appropriate general resale discount or to develop specific cost studies for individual services to be resold.

IX. Other Services

A. Directory Assistance (DA)

USWC proposes an allotment of one free call allowance for each local exchange customer, and to increase the price of each subsequent call from \$.25 to \$.60. This brings the price well above costs, the Company says, and will not affect the more than 60% of all customers who never use directory assistance. USWC notes that competitors charge amounts higher than the rates USWC proposes. The Company argues that this increase is justified because the cost study reflects issues raised by the Commission, and there is a major new DA competitor.

Public Counsel/AARP, Commission Staff, TRACER and DIS recommend a two-call allowance, with additional calls charged at \$.35 per call. Staff points to the Fourth Supplemental Order in the Term Loops matter, Docket No. UT-930957, in which the Commission authorized that rate but the Company refused it for reasons of revenue neutrality.

Commission Staff contends there are flaws in the Company's cost study and that USWC also cited a new competitor when it previously sought a DA increase. TRACER & DIS also recommend adopting the terms and conditions found reasonable in the Term Loops case, as well as using the Staff's updated estimate of the revenue impact, including contract revenues, which total \$7.78 million.

The Commission rejects the Company proposal. We find that there is no evidence of cost or market change since the time of the prior order and believe its selection continues to have validity. The Company will be directed to reduce the no-charge call allowance to two calls and to increase the per-call charge to 35¢. The Commission also adopts the terms and conditions associated with the authority granted in the Term Loops order and it accepts the Commission Staff updated revenue estimates as most accurate.

B. Late Payment Charge (LPC)

USWC proposes a 1.2% charge on monthly past due balances above \$45. The projected revenue impact is \$4.7 million. Commission Staff opposes the proposal. It professes no inherent opposition to late charges, noting that other utilities use them, but contending that it opposes the charge because there are specific problems with the proposal.

USWC responds that Commission Staff's opposition is based on mere technical arguments and fails to explain why a late payment charge is not acceptable for USWC even though the Commission has approved one for Puget Power, and USWC's competitors apply late payment charges. WITA supports the proposal, calling it good business practice and consistent with the Commission's actions in applying a late payment charge to regulatory fees.

Commission Staff's "technical" arguments include the absence of cost justification and the possibility that applying a late charge on the lump sum of the bill will violate Commission rules. Staff proposes rejection until the Company complies with Staff's recommendations, including basing the charge on costs incurred by the Company; limiting the charge to regulated services; applying the charge only to local service billed in advance, applied 60 days after initial bill date; and providing procedures for medical emergency exceptions and for customers to establish a preferred payment date. (Ex. 797-T, 17-18).

Public Counsel/AARP support the late payment charge in concept, but oppose details of this proposal. They contend that the LPC should be adopted only if USWC applies the LPC to the Company's services only; the interest rate equals the Company's authorized return, and revenues are adjusted for the impact on working capital.

The Commission finds that the Company's is correct that a late payment charge is a reasonable way to recover costs imposed upon the Company and other ratepayers by persons